COMPANY RESULTS

British American Tobacco (ROTH MK)

1H25: Above Expectations; Catching The Spark

BAT's 1H25 results beat expectations on a stellar 2Q25. Revenue and earnings doubled sequentially as stronger sales volume and a lack of marketing spend on Vuse resulted in margin expansion. Looking forward, while the long-term outlook for the group continues to be cloudy, we see trading opportunities given the current share price weakness. Upgrade to BUY with a higher target price of RM5.70.

1H25 RESULTS

Year to 31 Dec	2Q25 (RMm)	qoq % chg	yoy % chg	1H25 (RMm)	yoy % chg
Revenue	625	94.0	-2.5	947	-10.0
Gross profit	136	79.9	-11.4	212	-11.1
EBIT	78	101.7	38.7	117	14.3
Net profit	51	118.9	40.4	74	12.0
Core net profit	51	118.9	40.4	74	12.0
Margins	**%**	**+/-ppt**	**+/-ppt**	**%**	**+/-ppt**
Gross profit	21.8	-1.7	-2.2	22.4	-0.3
EBIT	12.5	0.5	3.7	12.4	2.6
Effective tax rate	-27.4	-0.1	0.1	-27.4	-0.9
Core net profit	8.2	0.9	2.5	7.8	1.5

Source: British American Tobacco, UOB Kay Hian

RESULTS

- **1H25 above expectations.** British American Tobacco (BAT) reported a 1H25 core net profit of RM74m (+12% yoy). This made up 52% of our and 53% of consensus' full-year forecasts. We deem this above expectations given the strong 2Q25 results (which alone made up 36% of our full-year forecasts), which we expect will sustain in the coming quarters. The positive deviation came largely from stronger-than-expected sales volume and improved margins from lower marketing spend. A 12 sen dividend was declared, bringing the total to 19.5 sen (1H24: 22 sen).

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	2,311	2,315	2,088	1,960	1,875
EBITDA	299	281	257	242	236
Operating profit	281	276	242	226	219
Net profit (rep./act.)	195	181	165	152	147
Net profit (adj.)	195	181	165	152	147
EPS (sen)	68.2	63.2	57.7	53.3	51.5
PE (x)	6.7	7.2	7.9	8.6	8.9
P/B (x)	3.5	3.4	3.3	3.2	3.2
EV/EBITDA (x)	59.5	63.4	68.9	73.3	75.1
Dividend yield (%)	14.9	13.8	12.6	11.7	11.3
Net margin (%)	8.4	7.8	7.9	7.8	7.8
Net debt/(cash) to equity (%)	136.4	134.7	117.0	107.5	99.7
Interest cover (x)	12.3	10.4	11.5	10.8	10.6
ROE (%)	51.9	47.5	42.8	39.2	37.5
Consensus net profit	-		151	145	143
UOBKH/Consensus (x)	-		1.09	1.05	1.03

Source: British American Tobacco, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM4.57
Target Price	RM5.70
Upside	24.7%
(Previous TP	*RM5.45)*

COMPANY DESCRIPTION

BAT manufactures cigarettes and markets its products under its key brands Dunhill, Peter Stuyvesant and Rothmans.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	ROTH MK
Shares issued (m):	285.5
Market cap (RMm):	1304.9
Market cap (US$m):	308.4
3-mth avg daily t'over (US$m):	0.5

Price Performance (%)

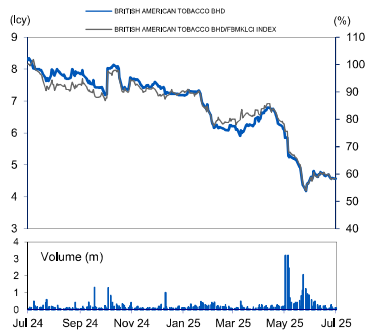
52-week high/low RM8.36/RM4.18

1mth	3mth	6mth	1yr	YTD
3.2	(29.7)	(36.4)	(45.3)	(38.7)

Major Shareholders	%
British American Tobacco PLC	50.0
Tan Yu Yeh	3.1
Allianz SE	1.4

FY25 NAV/Share (RM)	1.36
FY25 Net Debt/Share (RM)	0.29

PRICE CHART



Source: Bloomberg

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- **Margins expanded on lack of Vuse spending.** 1H25 revenue of RM947m (-10% yoy) came in weaker as BAT reported an overall market share loss of 1.2ppt. While the premium Dunhill brand reported a market share gain of 0.3ppt, both the mid-range aspirational premium (AP) brands and value-for-money (VFM) brands reported declines of 0.4ppt and 0.9ppt respectively. However, this was entirely offset by the lack of marketing spend on its vapour brand Vuse following the product exit announced earlier in April, which resulted in operating expenses dropping 40.1% yoy. Overall, despite the lower revenue, net profit margin expanded 1.5ppt in 1H25 while core net profit grew 12% yoy.
- **Sequential improvement all around.** BAT's 2Q25 revenue of RM625m (+94.0% qoq, -2.5% yoy) and net profit of RM51m (+118.9% qoq, +40.4% yoy) saw a significant sequential jump as overall legal cigarette volumes rose 7.8% during the quarter. Both a 0.4ppt qoq decline in illicit incidence (2Q25: 54.4%) and the fasting month during 1Q25 resulted in a significant jump in sales volume, offset partially by a 0.6ppt decline in market share.

STOCK IMPACT

- **Sunset on the horizon…** Looking forward, the outlook remains cloudy for BAT. The group faces persistent headwinds as it continues to face pressure from a generally cloudy consumer outlook and growing health consciousness. While operational matrices improved during 2Q25, overall industry volumes continue to trend downwards and the exit of Vuse leaves BAT with minimal long-term catalysts.
- **…but some near-term sparks.** However, despite the mixed outlook, we foresee some near-term upside for BAT. While the transition out of vapour products may impact the group in the longer term, the lack of marketing spend associated with growing the Vuse brand has already resulted in margin expansion with minimal impact on revenue. We anticipate the improved margins will sustain into 2H25 and BAT's renewed focus on the combustible cigarette segment could see results coming in similarly strongly in the coming quarters. The recently announced RM100 cash handout could also help relieve some cost of living pressure and boost consumption of its VFM and AP brands.

EARNINGS REVISION/RISK

- We revise our 2025/26/27 earnings upwards 15%/13%/10% respectively, factoring in higher margins and higher sales volume.

VALUATION/RECOMMENDATION

- **Upgrade to BUY with a higher target price of RM5.70 (from RM5.45 previously).** Our target price, which is DCF-based (WACC of 10.0%, terminal growth: -3.0%), implies 12.9x 2025F PE, slightly below its five-year mean.
- Despite the uncertain outlook for cigarettes, we upgrade our call as we believe trading opportunities have emerged. BAT currently trades at below -2.0SD and also offers a good dividend yield of ~12% through to 2027.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

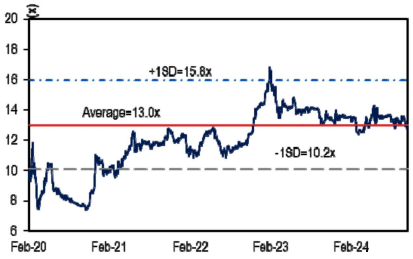
• **Environmental**
- **Carbon neutrality.** Achieving carbon neutrality across Scopes 1 and 2 by end-25.
- **General waste.** Reducing waste generated by 15% and recycling at least 95% of the waste generated by end-25.
- **Single-use plastics.** Ensuring that 100% of plastic packaging is reusable, recyclable or compostable by end-25.
• **Social**
- **Diversity and inclusion.** Increasing proportion of women in senior teams to 40% by end-25.
• **Governance**
- **Board gender diversity.** Male to female ratio of 7:3.
- **Board tenure and experience.** Three board members with >five years' tenure, one board member with 3-5 years' tenure, and three board members with <three years' tenure.

KEY ASSUMPTION

	2025F	2026F	2027F
Volume Growth yoy (%)	**-10.2**	**-7.2**	**-6.7**
ASP Growth yoy (%)	**3.8**	**1.2**	**2.5**
ASP (RM/pack)			
Premium	17.9	17.9	18.2
Aspirational	16.4	16.4	16.7
VFM	12.5	12.5	13.0
Excise Assumption (RM/pack)	8.0	8.0	8.0
Gross Profit (RMm)	**469**	**444**	**416**
GP Margin (%)	22.4	22.6	22.2
PAT (RMm)	**165**	**152**	**147**
Growth yoy (%)	-10.1	-7.6	-3.4
PAT Margin (%)	7.9	7.8	7.8

Source: BAT, UOB Kay Hian

12-MONTH FORWARD PE BAND



Source: BAT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**2,315**	**2,088**	**1,960**	**1,875**
EBITDA	281	257	242	236
Deprec. & amort.	8	13	16	18
EBIT	276	242	226	219
Associate contributions	0	0	0	0
Net interest income/(expense)	(27)	(22)	(22)	(22)
Pre-tax profit	**249**	**220**	**203**	**196**
Tax	(68)	(55)	(51)	(50)
Minorities	0	0	0	0
Net profit	**181**	**165**	**152**	**147**
Net profit (adj.)	181	165	152	147

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	50	41	43	45
Other LT assets	426	436	435	435
Cash/ST investment	35	95	124	148
Other current assets	685	616	581	557
Total assets	**1,196**	**1,188**	**1,184**	**1,185**
ST debt	558	558	558	558
Other current liabilities	224	207	196	189
LT debt	0	0	0	0
Other LT liabilities	26	26	26	26
Shareholders' equity	388	396	404	411
Minority interest	0	0	0	0
Total liabilities & equity	**1,196**	**1,188**	**1,184**	**1,185**

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**205**	**254**	**213**	**204**
Pre-tax profit	252	220	203	196
Tax	(61)	(55)	(51)	(50)
Deprec. & amort.	32	15	16	17
Associates	0	0	0	0
Working capital changes	(44)	72	48	41
Non-cash items	n.a.	n.a.	n.a.	n.a.
Other operating cashflows	26	2	(3)	(1)
Investing	**(3)**	**(16)**	**(17)**	**(18)**
Capex (maintenance)	(3)	(16)	(17)	(18)
Others	1	0	0	0
Financing	**(195)**	**(179)**	**(167)**	**(162)**
Dividend payments	(168)	(156)	(145)	(140)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Others/interest paid	(41)	(22)	(22)	(22)
Net cash inflow (outflow)	**8**	**59**	**30**	**24**
Beginning cash & cash equivalent	**28**	**35**	**95**	**124**
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
Ending cash & cash equivalent	**35**	**95**	**124**	**148**

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	12.9	12.1	12.3	12.3
Pre-tax margin	11.1	10.8	10.5	10.4
Net margin	8.4	7.8	7.9	7.8
ROA	16.8	15.4	14.1	13.1
ROE	51.9	47.5	42.8	39.2
Growth				
Turnover	(11.0)	0.2	(9.8)	(6.1)
EBITDA	(29.4)	(6.0)	(8.4)	(6.1)
Pre-tax profit	(33.5)	(2.8)	(11.6)	(7.6)
Net profit	(25.8)	(7.3)	(8.8)	(7.6)
Net profit (adj.)	(25.8)	(7.3)	(8.8)	(7.6)
EPS	(25.8)	(7.3)	(8.8)	(7.6)
Leverage				
Debt to total capital	59.0	59.0	58.5	58.0
Debt to equity	143.8	143.8	140.8	138.2
Net debt/(cash) to equity	136.4	134.7	117.0	107.5
Interest cover (x)	12.3	10.4	11.5	10.8

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